

Bond Insurers' Exposure To Puerto Rico Issuers Does Not Affect Credit Ratings

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Recent news headlines including Puerto Rico Governor Ricardo Rossello's desire to renegotiate a debt restructuring deal for the Puerto Rico Electric Power Authority and comments relating to actions by or about the Puerto Rico oversight board have brought into question the financial strength of U.S. bond insurers. S&P Global Ratings' view is that **Assured Guaranty Ltd.** (Assured) and **National Public Finance Guarantee Corp.** (National) generally maintain sufficient capital adequacy to sustain losses, with no change in our rating on each company. **Build America Mutual Assurance Co.** does not have any Puerto Rico-related debt exposure in its insured portfolio. **Berkshire Hathaway Assurance Corp.** has an immaterial amount of Puerto Rico-related debt exposure for which the company provided a guarantee on a bond already guaranteed by a bond insurer we do not rate.

We have not changed our scenario assumptions for Assured and National from last year (see "**U.S. Bond Insurers' Capital Adequacy Is Likely Sufficient To Handle Potential Losses Related To Their Puerto Rico Insured Exposures**", published June 15, 2016 on RatingsDirect). Assured's capital position could absorb losses on its entire exposure to issuers in Puerto Rico of approximately \$2.3 billion and, without accounting for any other factors, there would be no change in Assured's capital adequacy score or financial risk profile. For National, the figure would be \$2.4 billion in losses.

In our analysis, we assume that the bond insurers will continue to experience refundings and normal amortization in their insured portfolios and limited new business production to replace the greater run-off of insured risk. This deleveraging of risk improves each bond insurer's capital adequacy. It's still early in the negotiations, and forecasting a final settlement is difficult; however, we are monitoring the situation and may need to revise our view if we believe the legacy bond insurers' liquidity or capital is under stress.

Only a rating committee may determine a rating action and this report does not constitute a rating action.

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